WHAT MAKES LOW DOWN PAYMENT LOANS POSSIBLE?

Mortgage Insurance. Simply put, mortgage insurance protects the mortgage company against financial loss if a homeowner stops making mortgage payments. Mortgage companies usually require insurance on low down payment loans for protection in the event that the homeowner fails to make his or her payments. When a homeowner fails to make the mortgage payments, a default occurs and the home goes into foreclosure. Both the homeowner and the mortgage insurer lose in a foreclosure. The homeowner loses the house and all of the money put into it. The mortgage insurer will then have to pay the mortgage company's claim on the defaulted loan.

For this reason, it is crucial that the family buying the home can really afford it -- not only at the time it is purchased, - but throughout the time period of the loan.

Remember that mortgage insurance is not the same as credit life insurance, also called mortgage life insurance. This type of policy repays an outstanding mortgage balance upon the death of the person who took out the insurance policy.

THE TWO CHOICES: GOVERNMENT INSURANCE AND PRIVATE INSURANCE

Now that we have explained how mortgage insurance works and why it is necessary, let's look at the basic kinds of mortgage insurance. Low down payment mortgages can be insured in two ways -- through the government or through the private sector. Mortgages backed by the government are insured by the Federal Housing Administration (FHA) or guaranteed by the Department of Veterans Affairs (VA) or the Farmers Home Administration (FmHA).

Although anyone can apply for FHA insurance, the other two government mortgage guarantee programs are much more targeted. The VA program is limited to qualified, eligible veterans and reservists. This program is very specialized, so contact your mortgage professional for the details. The FmHA insures loans for the construction and purchase of homes in rural communities.

Obtaining conventional financing is the alternative to obtaining a home loan backed by the government. Conventional mortgages are all home loans not guaranteed by the government, including those guaranteed by private mortgage insurers.

Although government and private insurance are based on the same concept of allowing families to get into homes with less cash down, there are many differences between the two. Often, your mortgage professional will play an important role in suggesting and deciding which insurance is selected.

Home buyers must make a down payment of at least 5% of a home's value to be considered for private mortgage insurance. However, under some special programs, the down payment requirement allows the buyer to use a gift or grant to cover 2% of the 5% down payment required by private mortgage insurers. The gift or grant may come from a friend or relative, or a community group or other organization.

Private mortgage insurance is available on a wide variety of home loans and there is no pre-set limit on the loan amount. Although differences such as these may affect whether the mortgage company prefers to work with government or conventional mortgages, your mortgage professional will discuss which one would be better for your situation.

With the wide variety of loans available, home buyers have the freedom to choose the type of loan that best suits their needs. Early on in the home buying process, it is a good idea to meet with several companies to compare the types of mortgages they offer and shop for the best price and terms. Best of all, working with a mortgage insurer can be very easy -- whether your loan is insured by the FHA or a private mortgage insurance company -- because your mortgage professional handles all of the arrangements.

By making lending money to home buyers safer, mortgage insurance helps more families get into homes of their own.

QUALIFYING FOR A LOW DOWN PAYMENT LOAN

To be considered for a low down payment loan, you generally need to have:

- Sufficient income to support the monthly mortgage payment
- Enough cash to cover the down payment
- Sufficient cash to cover normal closing costs and related expenses (explained below)
- A good credit background that indicates your payment history or "willingness to pay"
- Sufficient appraisal value, which shows the house is at least equal to the purchase price
- In some instances, a cash reserve equivalent to two monthly mortgage payments

Closing costs, or settlement costs, are paid when the home buyer and the seller meet to exchange the necessary papers for the house to be legally transferred. On the average, closing costs run approximately 2% to 3% of the house price. This percentage may vary, depending on where you live.

DOWN PAYMENT ASSISTANCE

Many local and state agencies run bond programs to generate funds to help individuals and families with a down payment. Contrary to public thinking, these bond issues are not a type of welfare. The government knows that it can be tough to buy that first home, especially on a limited income.

Most agencies are income sensitive, but you may be surprised by the high level of acceptable income. The income level is especially high if you have children or dependents. Most agencies also have purchase limits, but they are adjusted to the income qualifications level.

Contact the Indiana Housing Authority:

Indiana Housing Finance Authority
One North Capitol / Suite 515
Indianapolis, IN 46204
(317) 232-7777

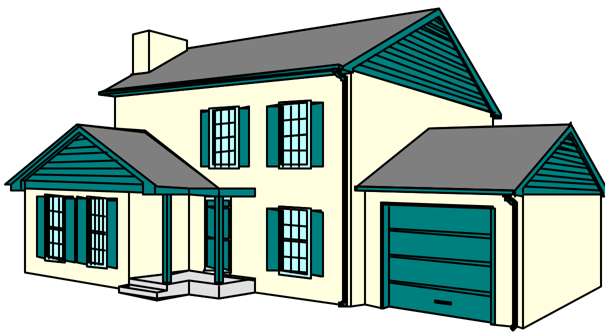
The Indiana Department of Financial Institutions, Division of Consumer Credit has many other credit related brochures available, such as:

- Answers to Credit Problems
- Applying for Credit
- At Home Shopping Rights
- Bankruptcy Facts
- Buried in Debt
- Car Financing Scams
- Charge Card Fraud
- Choosing A Credit Card
- Co-Signing
- Credit and Divorce
- Credit and Older Consumers
- Deep in Debt?
- Equal Credit Opportunity
- Fair Credit Reporting
- Fair Debt Collection
- Gold Cards
- Hang up on Fraud
- High Rate Mortgages
- Home Equity Credit Lines
- How to Avoid Bankruptcy
- Indiana Uniform Consumer Credit Code
- Look Before you Lease
- Mortgage Application Process
- Mortgage Discrimination
- Mortgage Loans
- Repossession
- Reverse Mortgage Loans
- Rule of 78s – What is it?
- Scoring for Credit
- Shopping for Credit
- Using Credit Cards
- Variable Rate Credit
- What is a Budget?
- What is the DFI?

Call our toll-free number or write to the address on the cover for a copy of any of the brochures listed or for further consumer credit information.

DEPARTMENT OF FINANCIAL INSTITUTIONS
Consumer Credit Division
30 South Meridian Street, Suite 300
Indianapolis, Indiana 46204

MORTGAGE DOWN PAYMENTS



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